Workshop Agenda

Global Economic Policy Group Meeting 2024: Politics, Integration and Trade

Tuesday – Wednesday, October 1 – 2,
2024 FernUniversität in Hagen | Campus Berlin

UNIVERSITY OF WESTMINSTER

FernUniversität in Hagen

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Day I

Session I 10:00–11:30

When performance melts away: Heat causes individuals to make more mental mistakes in high-stakes competitions

Hendrik Sonnabend (University of Hagen)

This paper investigates the effect of heat stress on cognitive abilities in a competitive environment with high performance incentives. Using play-by-play data from the National Football League (NFL) and weather data, we show that football players are 23.80% more likely to be penalized for infractions related to mental errors in games with temperatures above 85°F (29.4°C) compared to games with lower temperatures. Furthermore, we identify situations with little scope (i) to adapt to heat stress and (ii) to coordinate and recover concentration, as well as players' body dimensions, as channels that may explain the heat-related decline in mental performance.

Capital Mobility, Risk Sharing and Consumption Volatility

Valeryia Yersh (Lazarski University)

International business cycle models suggest that under perfect capital mobility and complete asset markets, economic agents can achieve smooth consumption paths through international risk sharing. This can be done ex ante (in the long run) with state-contingent assets or ex post (in the short run) through international borrowing and lending. Despite significant advancements in financialization and capital mobility over the past quarter-century, empirical evidence consistently indicates a lack of international risk sharing, with only minor improvements observed.

In this study, we analyze data from 157 countries over the period 1970-2019 to estimate both short- and long-run international consumption risk sharing and capital mobility using a dynamic common correlated effects mean group estimator. Our findings reveal that while capital mobility has greatly increased, it has not led to a corresponding rise in international risk sharing. Although there have been slight improvements in both capital mobility and risk sharing, the high degree of capital mobility does not translate into significant risk sharing.

In the second stage of our analysis, we investigate factors contributing to improved risk sharing. We begin with capital mobility and financial development, which are well-established in the literature as facilitators of international risk sharing. Additionally, we explore less-examined mechanisms such as labor participation in national income, taxes and government spending, institutional quality, economic openness, migration, exchange rate volatility, and economic development.

Lunch 11:30–13:00

Session II 13:00–14:30

Price Heterogeneity, TFP, and Markups

Jen-Chung Mei (University of Westminster)

Existing Total Factor Productivity (TFP) and markups derived from revenue data often suffer from firm-level price biases. This paper employs a structural demand approach with a revenue function, incorporating input and output price corrections to disentangle TFP and markups from price variations. We also compare TFP and markups derived from cost-share and conventional production approaches, both with and without correcting for price biases, to highlight how estimates differ across different methodologies. Using firm-level data from Chinese manufacturing, the results reveal that: (i) ignoring price variations substantially underestimates TFP; (ii) aggregate TFP growth is underestimated by nearly 10%; (iii) the net entry rate drops from 6-7% to over 12-13% when accounting for firm-level price heterogeneity; (iv) TFP estimates are underestimated using the production approach but overestimated with the cost-share method when price variations are addressed; (v) the structural demand approach shows the lowest TFP growth patterns compared with the other two alternatives; (vi) markups are underestimated with the structural approach but overestimated with the production approach when prices are ignored; and (vii) the differences are relatively marginal under the production approach but substantial under the structural approach. These findings highlight the necessity of carefully considering price heterogeneity and methodological approaches to ensure accurate and meaningful results in efficiency measurements.

The role of labor market and financial frictions for firm responses to globalization: Short-term pain or long-term gain?

Hans-Jörg Schmerer (University of Hagen)

This article presents an analysis of plant-level responses to the China trade shock based upon a Dynamic Stochastic General Equilibrium (DSGE) model with heterogeneous firms, search frictions, and employment protection. We extend the model by financial frictions and endogenous exit. Our study reveals that firms in export-oriented industries exhibit greater resilience at the extensive margin, with a lower likelihood of exit, and show an increased propensity to hire more workers at the intensive margin. These observations are corroborated by simulations of our DSGE model. We delve into the role of labor market institutions in shaping the trade and employment nexus through simultaneous adjustments in both trade and employment protection costs.

Break 14:30–15:00

Session III 15:00–16:30

Dealer Risk Premiums in Long-Run Exchange Rate Forecasts

Joscha Beckmann (University of Hagen)

We investigate the role of risk premiums in long-run foreign exchange (FX) survey forecasts. Given that market makers in FX are both price setters and contributors to surveys such as Consensus Forecasts or FX4Casts we may expect risk premiums of FX liquidity provision to emerge in forecast data as well. The empirical analysis consistently documents that FX forecasts are strongly correlated with dealer balance sheet factors as well as risk premiums calculated from FX derivatives.

Nonlinearities in the institutions-growth relationship in a dynamic panel data framework: Evidence from China's provinces

Linda Glawe (University of Chemnitz)

It is by now a well-established fact that good institutions are key to long-run economic performance. However, there is also a growing body of literature that argues that the nature of the interaction between institutional quality and economic growth is complex and might not always be positive and linear. Our paper aims to add further arguments to this discussion by focusing on China. China is an interesting case study since it is often regarded as an exception by having achieved astonishing growth for over three decades despite relatively low institutional quality. We analyze potential nonlinearities in the institutions-growth relationship across Chinese provinces within a dynamic panel data framework using Fan et al.'s NERI marketization index and system GMM estimation techniques. Our findings show that the effect of institutions on growth is indeed nonlinear: Improvements in institutions are harmful to economic growth at very low levels of institutional quality. This attenuating-growth effect persists until a critical threshold is reached; beyond this threshold, the positive effect of institutional quality on growth starts to unfold and continues rising up to a second threshold after which diminishing marginal returns of institutional quality start to manifest. Importantly, our findings are robust when using both an updated version of the NERI index and an alternative measure of economic activity, namely satellite night-time lights. Our findings have important policy implications for China and other developing countries that are seeking to enhance their economic growth prospects through institutional reform.

Keynote 16:30 - 17:45

Beyond Borders: Assessing the Influence of Geopolitical Tensions on Sovereign Risk Dynamics

António Afonso (ISEG Lisbon School of Economics and Management)

We assess the impact of geopolitical risk and world uncertainty on the sovereign debt risk of 26 European Economies during the period 1984-2022, through the implementation of OLS-Fixed Effects regressions and the Generalized Method of Moments (GMM). We find that geopolitical tensions and global uncertainty in border countries contribute to the rise of European country's sovereign risk as measured by 5- and 10-year Credit Default Swaps (CDS) and bond returns. Moreover, this interconnection is more pronounced during turbulent times such as the subprime crisis. Lastly, we found that geopolitical tensions in other country' groups such as South America and Asia have a significant impact on the government risks of European countries.

Day II

Session IV 10:00-12:30

Is U.S. real output growth really non-normal? Testing distributional assumptions in time-varying location-scale models

Benjamin Schwanebeck (University of Hagen)

The financial situation of households differs substantially across countries, but the implications of this heterogeneity is still vastly understudied. We examine the implications of this asymmetry for optimal monetary policy in a currency union. We build a two-country monetary union model with heterogeneous households leading to inequality due to imperfect insurance. We introduce money through central bank digital currency (CBDC) as a liquid asset for self-insurance against idiosyncratic risk. CBDC is a new instrument which allows the central bank to target heterogeneity within a monetary union.

We derive a welfare function with two additional objectives, consumption inequality within and across countries. The more heterogeneous households are, the less important inflation stabilization becomes in favor of stabilizing consumption inequality through providing money. We provide important policy implications as we show that it is beneficial for a monetary union to have a country-specific instrument to compensate for country differentials.

Assessing Power Grid Performance in Pakistan: A Satellite-Based Approach to Outage Detection [Work in Progress]

Klaus Wulf-Andresen (University of Hagen)

Despite power grid reliability being a critical economic issue, Pakistani regulatory authorities lack comprehensive ground truth data on power outages, such as the System Average Interruption Frequency Index (SAIFI). We develop a method to extract outage patterns from daily granular nighttime satellite imagery. This gives rise to a synthetic difference-in-differences impact evaluation of the Matiari-Lahore Power Transmission Line.

Quantifying the effects of uncertainty shocks on economic activity: A meta-analysis

Karen Jackson (University of Westminster)

This study conducts a meta-analysis of the empirical literature on the real effects caused by an uncertainty shock. More precisely, we focus on the effects of economic activity as it is measured by real output or industrial production. By collecting 74 published papers, we examine their reported impulse responses for six different periods: 1-2 quarters (short-term), 4-8 quarters (medium-term) and 12-16 quarters after the shock (long-term). According to our results, there is evidence of publication bias; the researchers are more predisposed to report a negative response. However, this is true only in the short and medium term. Additionally, we try to explain the heterogeneity of the collected estimates across the above-mentioned time framework (short, medium and long-run). Specifically, we take into account a number of study characteristics, starting from the uncertainty measure used in this study. Among the prior literature, we find four measures: economic policy uncertainty, financial uncertainty, macroeconomic uncertainty and an uncertainty index based on any kind of volatility measure. Secondly, we investigate whether the estimation method affects the results. Since the paper collection process focuses on studies based on VAR estimation, we distinguish among six categories (standard VAR, BVAR, FAVAR, GVAR, Proxy VAR, and sign restrictions). Finally, we create ten dummy moderator variables that capture several data characteristics (time series vs. panel data) and publication features (paper being published in a prestigious journal or not). The empirical analysis, based on a series of different estimation techniques, shows that the heterogeneity among the reported impulse responses is due to the exact measure of uncertainty as well as the estimation strategy, as reflected in the VAR choice.

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